

Q3 2024 Henkel AG & Co KGaA Earnings Call Transcript

Nov 06, 2024 / 08:00AM GMT

Release Date Price: €70.65 (-3.22%)

Key Points

☒ Transcript

Q & A

Key Points

Positive

- Henkel AG & Co KGaA (HELKf) reported strong organic sales growth of 3.3% at the group level, with adhesive technologies growing by 3.7% and consumer brands by 2.7%.
- The company achieved continued strong gross and EBIT margins in Q3, allowing for increased investment in brands and businesses.
- Henkel's adhesive technologies business outperformed relevant markets, driven by customer-centric innovations and sustainability-focused solutions.
- The consumer brands segment saw high single-digit organic sales growth in the hair business for the fifth consecutive quarter, supported by volume growth and market share gains.
- Henkel reiterated its full-year guidance and expressed confidence in reaching the upper half of the ranges for both adjusted EBIT margin and adjusted EPS growth.

Negative

- The consumer brands segment experienced a volume decline, with volumes remaining below the prior year quarter, impacted by ongoing portfolio optimization measures.
- North America showed a decline in both business units, reflecting a challenging market environment and the impact of portfolio optimization in consumer brands.
- The company faced headwinds from foreign exchange effects, which negatively impacted sales by 3.6%.
- The automotive segment within adhesive technologies showed signs of weakness, reflecting a slowdown in market demand.
- Henkel anticipates lower profitability levels in the second half of the year compared to the first half, due to increasing direct material costs and higher marketing investments.

Operator

Good morning, and welcome to the Henkel conference call. (Operator Instructions) I will now hand over to Leslie Iltgen, Head of Investor Relations. Please go ahead.

Leslie Iltgen

Henkel AG & Co KGaA - Head of Investor Relations

Thank you, and good morning to everyone here in the call. A warm welcome on Henkel's Q3 performance call. I'm Leslie Iltgen, Head of Henkel's Investor Relations. Also, today, I'm joined by our CEO, Carsten Knobel; and our CFO, Marco Swoboda. Carsten will begin with an overview of the key developments and highlights in the third quarter.

Marco will follow with a more detailed review of the financial performance. As always, following the

presentation, Carsten and Marco will be happy to take your questions.

Before handing over to Carsten, please let me remind you that this call will be recorded, and a replay will be made available on our Investor Relations website shortly after this call. By asking a question during the Q&A session, you agree to both the live broadcasting as well as the recording of your question, including salutation, to be published on our website.

Also, please be reminded that this presentation contains the usual formal disclaimer in regard to forward-looking statements within the meaning of relevant US legislation. It can also be accessed via our website at henkel.com. As always, the presentation and discussion are conducted subject to this disclaimer.

With this, it is my pleasure to hand over to our CEO, Carsten Knobel.

Carsten Knobel

Henkel AG & Co KGaA - Chairman of the Management Board

Thanks, Leslie, and warm welcome also from my side to everyone joining our conference call today. And as always, we do appreciate your interest in our company. And we look forward to answering, for sure, also your questions. After walking you through the key developments of the third quarter, we will elaborate on Henkel's business performance and full year outlook in more detail. So let me move straightforward to the key topics and the highlights of the third quarter.

While the business environment in some of our markets remains challenging, we delivered strong organic sales growth of 3.3% on the group level to which both businesses contributed. Adhesive technologies achieved a growth of 3.7% and consumer brands grew by 2.7%. Pricing also continued to contribute positively. While pricing proved to be resilient in adhesive technologies, the still very strong pricing in our consumer business reflects the ongoing valuation of our portfolio.

Volumes. They showed an overall positive development on the group level. Here, the strong volume expansion in adhesives is a clear proof for the strength of our portfolio with which we are serving a wide range of industries. In consumer brands, volumes remained below the prior year quarter, but we are well on track with the implementation of our portfolio measures. When adjusting for the impact from discontinuations which we expect to conclude this year, volume development would have been flat. We are confident that 2024 will be another successful year for Henkel and that we will reach our sales and earnings guidance for the full year.

The strong performance year-to-date, which also includes continued strong gross and EBIT margin in Q3, also allowed us to continue to invest at increased levels in our brands and our businesses. And backed by the strong business performance year-to-date, we see a clear chance to even reach the upper half of these ranges for both the adjusted EBIT margin and the adjusted EPS growth, a clear proof that we are driving profitable growth across our businesses.

And with that, I would like to turn to some of the highlights in our two business units, starting with adhesive technologies. We're performing our markets by often customer-centric innovations and pioneering sustainability-focused innovations. Our mobility & electronics business yet again showed a continued strong top line performance. Here, the strong development of the electronics business again boosted our growth dynamics. And what's even more impressive is the fact that we recorded a broad-based volume expansion across a wide range of markets in our adhesive business.

In consumer brands, as mentioned before, we are pushing ahead with our measures to shape a focused and powerful portfolio. On the one hand, we are valorizing our brands based on tech-driven innovations and supported by strong marketing campaigns. And on the other hand, we see that our portfolio optimization measures are bearing fruit, as evident in the performance of our hair business, where those measures have been implemented earlier already.

For the fifth consecutive quarter, hair has been delivering a high single-digit organic sales increase. This is

backed by clear volume growth and by continued global market share gains in Styling. So again, a truly encouraging development of our hair business. And all in all, we are well on track at delivering on our priorities and commitments.

On the next few charts, I'd like to discuss some of these highlights a little bit more in detail. Starting with our adhesive technology business, which continues to outperform its relevant markets. With organic sales growth of 3.7% in the third quarter, we clearly surpassed the IPX, which showed an increase of 1.1% over the same period, a strong achievement and a clear proof of our unique solution portfolio.

I'd like to highlight three areas which make our business particularly successful, and which set us apart from peers. Number one, we work closely with our customers and partners to innovate in high-growth markets along key trends. In consumer electronics, for example, we are enabling high-performance technologies and changes in design requirements.

In the automotive industry, we are at the forefront in newly emerging fields. We develop solutions that drive the future of mobility & electronics, like solutions for advanced driver assistance systems and electronic control units, with high benefits for cars, irrespective of the powertrain.

Number two, as a leader in the sustainability transformation, we are leveraging our unique value chain position to create lasting impact across industries. We are not only developing sustainable solutions, but also enable our customers to reduce emissions in their use phases. And I'll get to one specific example in just a minute.

And lastly, we strategically invest in the future growth segments. A good example here is our MRO business, knowing that this is and will be a key market with high potential, we are strengthening our portfolio, building capacity and capabilities. With the acquisitions of Seal for Life and critical infrastructure, we also made a clear move towards an even more powerful and well-positioned business. Also going forward, the team is dedicated to continuously evolve our solution portfolio and offer innovations that shape the markets of today and beyond.

Moving on to the next two slides, I would like to share some specific examples as to how we outperformed our markets based on our unique portfolio in adhesive technologies. In the aerospace business, the commercial airline fleet is expected to double in the next 20 years. As OEMs ramp up aircraft production, we are actively supporting them in meeting safety, reliability and sustainability requirements.

Our portfolio in aviation ranges from structural adhesives to surface film solutions, pointing out one specific example within the area of surface solutions, which generated double-digit OSG in the first nine months of this year. Our innovative lightning strike protection film. Lightning strike protection is essential for the safety of every aircraft and, on top of that, enables composite lightweight design.

And in addition, we are leveraging our expertise strategically to serve emerging fields in the aerospace market, where we see great growth opportunities. And for example, here, in space, durability and reliability requirements are even higher than in aviation. Here, our innovative space solutions advance multiple areas of satellite structure and design.

Turning to another example, this time within the consumer goods part of our adhesive technologies business. In the sports and fashion industry, sustainability is an important topic as the industry makes up around 4% of global emissions. Thus, saving energy and reduction CO2 emissions in manufacturing is critical for our customers to reach their emission targets. We also enable emission reduction in the use phase of our solutions. In sports footwear, for example, most bonding steps require drying and activation temperatures of over 55 Celcius. We innovated to change that with our new COOLX solution.

COOLX reduces the required drying temperature to 35 degrees. This enables our customers to save up to 45% energy in the adhesive drying process. And beyond that, with lower temperature requirements, a greater range of materials can be used which enables emission and cost reduction. And we see that our innovations are paying off. Year-to-date, our sports footwear business delivered double-digit organic sales growth.

With that, let us move on to our consumer brands business. Our ambition is clear. We are driving the valorization of our consumer brands portfolio with relevant innovations and by significantly investing behind our strong brands. We want to strengthen our technology leadership to offer consumers superior products. Our innovations address clear consumer demands and offer a strong added value.

For example, in laundry care, consumers are willing to pay more for fabric care benefits. We provide superior fabric care solutions that allow clothes to look newer for longer. Our newly launched Persil formula in North America includes fabric ingredients that fight impurities such as chlorine in the water that cause colors to dull and fat. Our Fabric Care brand, Perwoll, with its renewed formula renews the color of the fabric. We highlighted this innovation, which we recently rolled out also to the UK under the Dylon brand already in more detail in one of our previous calls.

And in here, Schwarzkopf Professional introduced the next level of bonding under the fiber clinics line. The Bonfinity method, a new hair bonding technology, offers consumer permanent hair repair in salon for long-lasting results that keep reactivating at home. In line with our strategy, our innovations for sure also benefit from the increased and more focused marketing support.

And here, as already indicated in August, that we are stepping up our marketing spend in the second half of this year compared to H1. And the performance proves that we are on the right track. Our top 10 consumer brands continued their dynamic growth momentum with high single-digit organic sales growth, including a positive volume contribution year-to-date. This is also the way we will move forward.

Let me show you how exactly we are driving the valorization process. Take our automatic dishwashing brand, Somat, for example, which is the number one or number two in more than 70% of our active markets. And with Somat, we have established a clear focus on consumer needs and innovation, reaching more than 50 million consumers in around 20 countries. Just recently, we introduced the innovative and cutting-edge formula of the Somat excellence premium 5-in-1 caps. This innovation provides an extra boost in dishwashing, and even remove stains which were dried on by up to 72 hours effortlessly.

The formula not only cleans dishes, but also gives them a new shine and supports the daily care of the dishwashing machine even at low washing temperatures. This launch is backed by a strong marketing campaign, driving growth in our automatic dishwashing category with success. Our leading premium brand, Somat, delivered double-digit organic sales growth year-to-date and gained 90 basis points in market share.

And in hair, our North American professional business is an excellent example of how we shape the market with relevant innovations. As a reminder, Henkel is the number two player in this important market. North America accounts for a major part of our global hair professional business, and we have been strengthening it throughout the last years, both organically and with value-adding acquisitions.

And we are also continuously investing in our North American professional business to strengthen our unique portfolio that includes key brands such as Joico, which is one of our top American salon brands and which is used by around 800,000 hair stylists in the region. Just recently, we reinforced the brand positioning of Joico around healthy hair and bond building by extending its Defy Damage subline with a new detox shampoo for deep hair cleansing. The D5 Damage hair care system protect all hair types from the effects of daily heat styling, UV exposure and environmental pollution.

This line is the number one subline in the Joico Care portfolio, driving the brand's strong performance. Joico achieved very strong organic sales growth in the first nine months of this year. This is an excellent blueprint of how we want to expand our strong brands with leading innovations, and fueling the growth in the North American hair professional business.

Besides driving relevant innovations for our customers and consumers, we have been pushing ahead with our sustainability agenda. When we presented our 2030+ Sustainability Ambition Framework, a key item was to

develop a net-zero pathway. And just a few days ago, we published our new net-zero targets, which are validated by the Science-based Target Initiative. With those new targets, we are extending our climate commitment. We want to achieve net zero greenhouse gas emissions by 2045.

Compared to our previous climate targets, the new net zero targets cover a broader part of the value chain. The targets of Scope 1 and 2 emissions now encompass all operations, beyond production processes. They include office buildings, warehousing, R&D and the vehicle fleet. The emissions reduction targets for Scope 3 cover all emission categories occurring both up and downstream in the value chain, except for indirect use phased emissions.

Specifically, by 2030, we aim to reduce our absolute Scope 1 and 2 emissions by 42% and Scope 3 emissions by 30%. Underpinning our net zero commitment by 2045, we want to reduce our Scope 1, 2 and 3 emissions by 90% compared to the base year of 2021 and will permanently neutralize any residual emissions. And for sure, we will take concrete actions along the entire value chain to reach these ambitious targets. And for those who want to deep dive into our climate strategy, targets and specific activities, I would like to point you to Henkel's comprehensive Climate Transition Plan, which is available on our website.

Wrapping it up, we continued Henkel's growth trajectory in the third quarter with a strong top line performance fueled by both business units. We made further progress in shaping a winning portfolio, and we are well on track to conclude the discontinuations in the consumer brands by the end of this year.

We keep fueling growth with relevant innovations under our strong brands, shaping relevant industry trends and catering to our consumer needs. We are taking our sustainability agenda to the next level by having launched our ambitious net zero road map and Climate Transition Plan.

And last but not least, we reiterated our full year guidance today. And when it comes to the bottom line, let me highlight that we saw strong gross margins also in the third quarter, which allowed us to continue with our increased investments behind our brands and businesses. And hence, backed by the strong performance year-to-date, we see a clear chance to reach the upper half of the guidance ranges for both the adjusted EBIT margin and the adjusted EPS growth. So overall, we are well on track, and we keep on further pushing.

With that, let me hand over to Marco for some more details on our financial performance in the third quarter. Marco?

Marco Swoboda

Henkel AG & Co KGaA - Executive Vice President - Finance, Purchasing, Global Business Solutions and Member of the Management Board

Yes. Thanks, Carsten, and a warm welcome to everybody on the call, and happy to guide you through the more detailed numbers now. So building on what Carsten already said, let me provide some more color on the drivers of the group sales performance in third quarter for fiscal 2024. We achieved strong organic sales of 3.3%, which was driven by both price and volume. More on the business unit-related specifics in a minute.

Acquisitions and divestments increased sales by 1.2% on a net basis mainly due to contributions from the recently closed acquisitions of Seal for Life in adhesives and Vidal Sassoon in consumer brands. In contrast, FX effects were a headwind of minus 3.6%. In nominal terms, sales amounted to around EUR5.5 billion, that's around 1% above the prior year quarter.

Now to the drivers by region, starting with Europe, where we achieved positive organic sales growth of 0.7%, which was driven by both business units. Adhesive technologies posted a positive development to which all business areas contributed. In consumer brands, our European hair business showed a strong increase, while laundry & home care was slightly below the prior year also due to our portfolio measures.

In North America, we were down in the year in both business units and the performance of our adhesives business reflects the challenging market environment in the region, which is also evident in view of the negative

Industrial Production Index for North America of minus 0.3% in Q3. In line with expectations, the development in consumer brands is mainly due to our focus on optimizing the portfolio in that important region.

Moving on to Latin America, where we achieved very strong growth of 6.1%. While good growth in consumer brands was fueled by our hair business, in adhesive technologies, growth was driven by our mobility & electronics as well as craftsmen, construction & professional businesses. In India, Middle East, Africa continued to show clear double-digit growth of almost 20%, with double-digit contributions from both our consumer and industrial business. And here, it is important to note that growth was not only driven by pricing, but also by clearly positive volumes.

Our business in the Asia Pacific region grew organically by 6.4%. In consumer brands, we delivered very strong growth with both hair and laundry & home care contributing. Also, adhesive technologies delivered a very strong increase to which our business in China made a particular contribution.

Back now to the global level and turning to adhesive technologies in more detail. We reached sales of EUR2.8 billion in the third quarter. Organic sales growth was 3.7% with a strong contribution from volume and resilient pricing. And as Carsten pointed out earlier, we outperformed our relevant markets as indicated by the Industrial Production Index, which was up by only slightly more than 1%.

Pricing overall remained resilient, which clearly shows the strength of our market position and the broad portfolio serving various industries. While we were able to successfully defend pricing in the majority of our markets, we saw impacts from formula-based pricing in selected markets, particularly in packaging & consumer goods. However, without hurting our gross margins.

In line with previous communication, volume development accelerated, reaching now almost 4%, and thus showing a further sequential improvement compared to Q2. This underpins the success of our innovations and, as expected, was supported by the pickup in global industrial production in the second half of the year compared to H1. Looking at the remainder of the year, we expect the volume expansion to continue in Q4, while pricing is expected to remain robust.

Let me now turn to the performance in the individual business areas. Mobility & electronics delivered strong organic sales growth of 3.9%. This increase was driven by double-digit growth in electronics, which is also evident in the dynamic growth of our business in China and a very strong growth in the industrials business. Automotive overall reflects the slowdown in market demand. But let me now dive a bit deeper here.

For sure, we are not immune to the general development of vehicle build rates, but with our solutions, we continue to win projects and generate growth, not least in the area of e-mobility, which shows double-digit growth rates and keeps growing its share in the overall automotive market. The key strength of our portfolio certainly is that we are uniquely positioned in the market with a balanced portfolio in automotive, both in terms of OEMs that we deliver to, and also by region.

Packaging & consumer goods recorded a good organic sales growth of 2.7%, which was supported by very strong volume development. Packaging achieved strong organic sales growth and consumer goods posted a positive top line performance, both driven by improvement in demand. Craftsmen, construction & professional delivered a very strong organic sales increase of 4.5%. While growth was backed by all businesses, it was particularly driven by very strong growth in the general manufacturing & maintenance business.

And here, let me point out the strong development of our MRO business, which was driven by rising demand. And as Carsten mentioned before, the MRO business is a clear future growth market for us, where we had strengthened our position through the acquisitions of Critica and Seal for Life. Overall, strong performance of our adhesive technologies business in comparison to our relevant markets and considering the overall still demanding environment, clearly underpinning the strength of our business.

Turning now to consumer brands, where we generated sales of EUR2.7 billion, which translates into good

organic sales growth of 2.7%, which was driven by still very strong pricing of 4.5%. The continued strong pricing also reflects the ongoing process of valorizing our portfolio with value-adding innovations and sustained elevated investment levels in marketing to fuel further growth. Volume development reflects the impact from portfolio measures. Here, we are well on track.

And as Carsten mentioned before, we are confident to conclude the discontinuations, which are currently distorting both volume and market share development by the end of the year. When adjusting for the impact from portfolio measures in the third quarter, volumes would have been flat. For Q4, we expect volume development to show sequential improvement versus the third quarter, while the price component should remain strong as we continue to valorize our portfolio.

Now turning to the performance by business area. Laundry & home care delivered positive organic sales growth of 0.9%, driven by significant growth in home care. Laundry care reported a negative development, mainly impacted by portfolio measures. And as you know, the focus of our pruning activities currently is on our North American laundry & home care business, thus, the development is fully in line with our expectations. hair grew by almost 7% and thus continued its successful growth trajectory.

The consumer business achieved significant growth, supported by strong performance in Styling. Our professional business also developed very strongly with our regions contributing. The other consumer businesses reported good growth overall, with a very strong contribution from Europe.

As Carsten already mentioned earlier, today, we reiterate our sales and earnings guidance for 2024. We continue to expect organic sales growth of 2.5% to 4.5% on group level, with 2% to 4% for adhesive technologies and 3% to 5% for consumer brands. Here, we see us well within the current outlook range. Also, for the adjusted EBIT margin, we confirm our expectations. For the group, we continue to guide 13.5% to 14.5%, with 16% to 17% for adhesives and 13% to 14% in consumer brands.

And while we typically do not comment on profitability on a quarterly basis, let me highlight that we continue to see strong gross margins in Q3, while at the same time investing in our brands and businesses. So that's backed by the strong performance year-to-date, we see a clear chance to even end the year within the upper half of the current earnings ranges for the group, and this was true for both adjusted EBIT margin and adjusted EPS growth. Also, for adjusted EPS growth at constant currencies, we are confident to end the year in the upper half of our outlook, ranging from plus 20% to plus 30%.

And let me remind you of what we already stated in our H1 call in August. Given sequentially increasing direct material costs and increased investments in marketing, we expect profitability levels in H2 to be lower compared to H1, yet still above the second half of last year. Hence, this year's second half year's levels should not serve as a reference point for 2025, but rather the full year average should serve as a reference point. Our expectations regarding FX, A&D and direct material prices, restructuring expenses and CapEx for fiscal 2024 remain unchanged.

And with that, back to you, Carsten.

Carsten Knobel

Henkel AG & Co KGaA - Chairman of the Management Board

Thanks, Marco, and let me summarize today's key takeaways. We sustained Henkel's growth momentum with strong organic sales growth, which was fueled by both adhesive technologies and consumer brands. We saw an encouraging price development in both businesses, also keeping in mind the challenging market environment in some industrial markets. In terms of volumes, our adhesives portfolio once again proved its resilience and strength, showing another sequential step up compared to Q2. Volume development in consumer brands was still impacted by the ongoing portfolio optimization measures and here.

As stated before, we expect to conclude the discontinuations by the end of this year. And when it comes to Q4, we expect volume development to improve in both businesses versus Q3. And last but not least, we are confident

that 2024 will be another successful year for Henkel and that we will reach our sales and earnings guidance for the full year.

When it comes to the bottom line, let me highlight that we saw strong gross margins also in the third quarter, which allowed us to continue with our increased investments behind brands and businesses and backed by the strong performance year-to-date. We see a clear chance to reach the upper half of the group guidance ranges for both the adjusted EBIT margin and the adjusted EPS growth.

So summing it up, we are stringently executing our purposeful growth center. We are delivering a strong business performance, both top and bottom line. And at the same time, we drive meaningful progress when it comes to our strategic priorities, from shaping a winning portfolio, launching relevant innovations with clear value for our customers and consumers, on to stepping up our efforts and targets in the area of sustainability.

And with that, we will open up the lines now for the Q&A. Marco and I looking forward to take your questions.

Questions & Answers

Operator

(Operator Instructions) Guillaume Delmas, UBS.

Guillaume Delmas
UBS - Analyst

I have two questions. The first one is on the volume deterioration in Q3 for your consumer brands unit. I mean can you help us unpack a little bit the main moving parts behind this minus 1.7%? I mean for instance, quantifying the impact from portfolio measures, but also it would be helpful if you could touch on category growth, your market share development you're seeing. And in which regions you're seeing your volumes being clearly negative versus others, where it's probably closer to flat or even slightly positive?

And then looking ahead, I mean, you talked about some sequential improvement in Q4. What kind of visibility do you have around when your portfolio measures will be officially done and no longer impacting your quarterly performance and when you will be back to positive volume growth territory?

And then my second question is on your gross margin development. You alluded to in the press release. So you said it was strong in Q3. Just to be clear, do you still expect your second half gross margin to be below that of the first half? Or are you now slightly more optimistic about staying close to that 50% level you achieved in the first half?

And also, what would be helpful is if you could help us understand what is structural gross margin improvement -- so mix savings, portfolio measures versus a benefit from favorable commodity costs and a benefit that could probably fade away as we look at 2025?

Carsten Knobel
Henkel AG & Co KGaA - Chairman of the Management Board

Guillaume, that's a good start into the call or better to say into the Q&A. So first to the volume question. So first of all, I would not talk of a deterioration in the volumes. As you pointed out, it's minus 1.7% in HCB. I think it's absolutely in line with what we always stated during the year in the context of that we are not only valorizing our portfolio, but also discontinuing or further discontinuing the ones of the part of the portfolio which should not be long term with us.

So overall, we expect that the volumes in will be better than the volumes in Q3. We will also see that the impact from portfolio measures in Q4 will be smaller in comparison to Q3.

And in that context, the expectation for the full year is unchanged. That means that volumes are expected to be flat to slightly positive when we adjust for the portfolio measures. You have been asking what is the -- I think the impact, what is the impact of portfolio measures in this quarter. It is 1.7%. So with other words, the volume in Q3 is flattish when we adjust for the portfolio measures. And then I think another point was category related, and I think that is also in line what we said before.

We have two global categories here. I mentioned it in the call, we have seen the fifth consecutive quarter of not only strong or very strong high single-digit organic growth, but also a balanced split between price and volume with other words. And here, we see already, since now five quarters in a row, based on the portfolio prunings and the changes, that volume is positive. Consequence is that the portfolio measures are related to our laundry & home care portfolio and in that context, more to the laundry than to the home care part.

And because part of your question was also regional, the very outspoken part where we have the impact in the majority of these portfolio measures is in the area of North America. So -- and we always have said that the portfolio measures should be more pronounced in the first quarter of the year and lesser to the end of the year. I think that's in line what I said already before that we see less impact from these portfolio measures in the context of in Q4.

And the last question, you know that we are not giving today a guidance on the year 2025. But one thing is clear, and we said it before, portfolio measures are going to an end to the end of this year. With other words, my expectation is very clear that we will see positive volumes in 2025 for the HCB business. That's, I would say, to your first part of the question.

The second part is related -- was related to gross margins. I think it is, in line with the previous communications, we expect stronger margins in the first half versus the second half, resulting from a sequential increase of direct material prices in versus H2 versus H1. And in that context, even more pronounced in HCB versus HAT. We have significantly increased the marketing investments in -- not only in '23, but also in '24. And in that context also regarding A&P, we expect further increases in the A&P spend in H2 versus H1. So that's more on the margin overall.

For sure, your question was more related to the gross margins. I think we -- and that is also why we mentioned this, we have seen a better mix which for sure also impacts our gross margins in quarter three. And due to the fact that we mentioned that we wanted to highlight that because it was really great what we have seen in that context. And I hope that helps and answers your question, Guillaume.

Operator

Rashad Kawan, Morgan Stanley.

Rashad Kawan
Morgan Stanley - Analyst

Just a couple for me also, please. We talked about pricing in consumer, came in stronger than expected. Presumably, some of that is new pricing coming through. How have negotiations with retailers gone in this environment? And how is the promotional environment trended over the quarter relative to the first half?

And then just more broadly, what have you been seeing in terms of changes in consumer behavior over the quarter across the two segments, whether it's elasticity and incremental down-trading, et cetera, would be helpful?

Carsten Knobel
Henkel AG & Co KGaA - Chairman of the Management Board

Yes, as we have stated it -- because I think your question was mainly related to HCB. So as you have seen at pricing, yes, was very strong. And I think that's definitely related to one significant part, which we always

pointing out, which is the valorization of our portfolio. I think I have given a couple of examples, be it on Perwoll, be it Persil, be it on Somat, where we have significantly changed the innovative approach on these brands with tech-led innovations that are creating significant better benefits and touchable, feelable benefits our consumers, which, in a consequence, brings us into a situation to increase prices in that part. And I think that is an important lever what we are doing.

That's the reason why pricing is so pronounced during the year and also in Q3. And I think I also mentioned, and I think that's important, you know that we are doing our discontinuation efforts during the year, but we are focusing on our top 10 brands. And if you look at our top 10 brands, I think we have also reported that during the year, we see not only high single-digit organic growth, but we're also seeing combined with that, volume and price developments, especially volume development. Because I think that is also very high on your radar in terms of giving us a pushback in terms of when volumes will go back to positive territory. So that's, I would say, the most important part on that.

Yes, what we see currently is that consumer behavior is, for sure, always changing. And in these days, I think it's more muted in North America, for example, in comparison to Europe. What we also see is that there is a slight uptick in terms of promotional intensity in that context. We also see that private label is in a transition phase in terms of the private label shares remain on elevated levels, with inflationary pressures still having an impact on consumers in that context. On the other side, we see, I think I mentioned that also during the half year's call that there are more stabilizing trends when it comes to private label shares and partly even slightly coming down.

And as I said before, we believe that with our strong brands and innovation approach I mentioned before, that this will pay off and that consumers will start trading up again in that context. And I think -- I know I've mentioned that, but I think I continue to see, and we expect that we have a positive pricing in Q4 and volumes to improve sequentially Q4 versus Q3. As I said, impact of portfolio measures will still be there, but not at the same level as it has been in Q3 or in the first half of the year. I would say that's the overall situation. I hope that helps you, Rashad.

Operator

Celine Pannuti, JPMorgan.

Celine Pannuti
JPMorgan - Analyst

Yes, so I have a few follow-up questions as well on consumer brands performance. Just you think that -- so volume ex portfolio measure is flat, or you expect it to be flat to slightly positive for the year and you said it will be positive next year. Why -- what's driving that acceleration, because I think ex portfolio measure it seems that Q3 was, in fact, slightly less than in H1? And then if you could as well comment on your laundry. I understand you said that difficulties, the market share has been impacted by the tougher [pressure] in the US, but even in Europe, the laundry market shares have been under pressure.

So if you could comment on that. And my second question is on hair, which has been doing very strongly. Could you talk about performance in professional versus mass market? And in professional, are you starting to see some weakness because it seems that one of your competitors had been mentioning that the US market is weakening? Can I just ask another one on FX, could you please tell us what you expect for the year top and bottom, please?

Carsten Knobel
Henkel AG & Co KGaA - Chairman of the Management Board

So Celine, a battery of questions. So Marco, I assume you start with the FX one.

Marco Swoboda
Henkel AG & Co KGaA - Executive Vice President - Finance, Purchasing, Global Business Solutions and Member of the Management Board

Yes, I can do that, Celine. So on the FX impact for the year, the expectation is practically unchanged. So we do expect a negative low to mid-single-digit impact, and that is on both top and bottom line with a slightly more pronounced impact on the bottom line, but still within the guidance range. So that's what we see for the full year. And that's I think what we had also said already in Q2, and that has not really changed.

Carsten Knobel

Henkel AG & Co KGaA - Chairman of the Management Board

Good. So thank you, Marco. Then going to the topic of hair, I'll start with hair. So the hair business, I mentioned it has shown not only five consecutive quarters of great growth, but again, also in Q3, high single-digit growth driven by both the consumer and the professional business. And I mentioned it before, really a good balance split between price and volume.

So looking into the hair consumer business, we have seen significant growth in Q3. In that context, even double-digit growth in the area of styling. Styling is really driving in all areas of the world in a great extent. We have also in hair colorants, a strong in Q3 and also a strong OSG in Q3 in the hair care area. So all of that is now related to the consumer parts of our business. So really fantastic development.

If you look to hair professional, here, the business recorded a very strong growth in Q3, with all regions contributing in that context, even LatAm, Latin America with a double-digit growth, and North America, Europe is posting strong growth. So across the categories, across the regions, in both businesses, consumer and professional, not only in the quarter, but I said it before, five consecutive quarters. Why? Because the volume -- sorry, the portfolio measures, as we said it a couple of times, have been starting before and are more or less at the end. And by that, you see that really well-balanced portfolio.

Why I'm saying that? Because to your first question, when you were asking about the volume development ex portfolio and for the full year, let me repeat it. We had the volume in the quarter of minus 1.7%, portfolio measures, discontinuation impacting the business by around more or less the same number. That means 170 basis points, which was flattish volume in Q3. And as I also stated, if we look at the full year, it's also flattish, slightly positive when adjusting.

I think you understand we are doing these kinds of things, what is right for the portfolio. Therefore, we should not only look at the quarter, but really on the full year, and therefore, that is the situation that when you adjust for this portfolio things, we see a flat to slightly positive situation, what we expect for the full year.

Why are we confident that for 2025, as I mentioned it before, we expect a positive volume. For sure we will not have any portfolio discontinuation measures in terms of the program anymore. I think there are three things. One, what we can do in hair and what we're doing in hair, we will transfer that and are transferring that to laundry & home care. So therefore, there is a good proof point with hair that we can repeat that also in laundry & home care.

What are the content factors, which are making us confident that we will do that? First, better mix; and second, better portfolio; also, following all the work we have done in terms of shaping a better product portfolio, which is then related to the point I said before, innovations.

And the innovations really driven by tech-oriented topics to convince consumers, that what we are doing tech-wise is really better performance, touchable, feelable performance. And that should bring us into a situation to see that in 2025, also from a volume perspective across the whole portfolio.

And last but not least, I mentioned it, but I think it's important to repeat it, the top 10 brands are promising already in this year. Because they're including also laundry & home care brands. And by that, I said it before, we also see here positive volumes already, including the discontinued ones, despite the fact that we're having discontinuations. And these are the clear proof points which makes us confident, that, in that context, we will see in 2025 positive volumes for the HCB business. I hope that clarifies, Celine.

Celine Pannuti
JPMorgan - Analyst

Yes. Can I just ask how big is the top 10 brand as a percentage of the total of the division?

Carsten Knobel
Henkel AG & Co KGaA - Chairman of the Management Board

We disclosed that as a number, but it's significantly above 50%.

Operator

Christian Faitz, Kepler Cheuvreux.

Christian Faitz
Kepler Cheuvreux - Analyst

You are -- two questions on Adhesives, please. Your electronics business within adhesive is going rather well. One of your key polyurethane suppliers reported the opposite just recently, suggesting that the peak production period September, October, i.e., heading into the holiday sales season for electronics was a bit weak. How does that fit together? And then second, also on automotive.

I mean you mentioned it before -- sorry, on the adhesives. And there are any weak spots in your Q3 report, it is indeed the automotive exposure. Looking at production data and reading the headlines on the state of the car industry, it seems really the European OEMs who seem to have significant issues. Hence, the question, what is your exposure in terms of percentage in Western European OEMs versus Asian OEMs?

Carsten Knobel
Henkel AG & Co KGaA - Chairman of the Management Board

Christian, can you do me a favor? I had difficulties to get your first question. Can you repeat your first question, please?

Christian Faitz
Kepler Cheuvreux - Analyst

So your electronics business within adhesives is actually going rather well from what I saw in Q3. Your Abu Dhabi-based supplier, Covestro, is saying that their electronics exposure is actually a bit weak because the production -- the peak production period September, October for the upcoming Christmas season was weak in electronics. So how does that fit together? Because my understanding is that most of Covestro's electro-electronics exposure is actually trades.

Carsten Knobel
Henkel AG & Co KGaA - Chairman of the Management Board

Okay. Then starting with your first question. So I have no clue -- sorry, to say what Covestro in detail is doing independent where they are based. But I can tell you only what I can see out of our business. And that's showing a strong electronics business throughout the whole year, with a very strong development in Q3.

I have no signs and indicators that this will change. So we are very positive on our electronics business. In general, you know that our division -- or the unit is called mobility & electronics. So therefore, that was the one part, the electronics business being really strong and no signs of any change on that. When we look at the automotive part, it's very clear and not really surprising that we're currently facing, in the market, some difficulties.

But to put it in perspective, overall, good performance in electronics & mobility, with really good growth overall.

And I mentioned it before, that is driven by the continued strong growth in electronics. And the automotive part is definitely outperforming the market significantly.

I think we were very clear during the half year, where we have been also very strong organic growth in the automotive per se. The Q3 changed a little bit on that. And I start with the light vehicle production. If you look at the light vehicle production index, we have seen a mid-single-digit negative market, which is also in our business in Q3, negative but to not the same extent significantly lower. Why? Because the same what I said during the half year is also valid today, which is we are outperforming the market, means we are increasing market share by winning pitches in that context.

And you know that we are one of the few OEM providers, which is serving all automotive companies in the world. Therefore, I think for us, it's not the point that in Europe it is a little bit weaker than in other parts, because we are serving all OEMs. And with that diversified portfolio, it's regionally diversified, but also related to all OEMs, I think, very confident in the context. And if you look into 2025, you see a light vehicle production index which is up again in terms of positive, therefore, also confident in the third part for 2025. I hope, Christian, that answers both of your questions.

Operator

Victoria Petrova, Bank of America.

Victoria Petrova
BofA Global Research - Analyst

I have two clarification questions, Carsten, Marco and Leslie. First is again on adhesive business. You obviously have your order book and probably a very high visibility of the fourth quarter. Is there any change in trend in any of our adhesive's subdivision? And could you maybe, similarly to your comments on HCB business, talk about fourth quarter versus third quarter, either in terms of sales or volumes in adhesive?

My second question is again around your volume recovery and your adjusted volumes in HCB? When we look at North America, which is obviously massively impacted by portfolio measures, outside of that, has there been any change in competitive landscape and behavior of your key competition, specifically in laundry business? And in this context, is there a risk that you have overpriced and might need to reset pricing next year in case your volumes are not recovering post portfolio measures?

Carsten Knobel
Henkel AG & Co KGaA - Chairman of the Management Board

So adhesives, I think looking at that, you asked for the -- for our bookings in Q4. I hope you understand that I will not go into any trading details. But currently, no signs that -- and we had to start into the quarter, which is also good, that there are any changes compared to what we have already said. We were saying that volumes or, better to say, the OSG will have a stronger second half than first half. I think Q3 is clearly -- sorry, yes, Q3 is really improving that with a 3.7%, significantly driven by volumes which are close to 4% and the resilient pricing on that.

We're seeing an IPX forecast for Q4 of around 1.8%, so which is higher than the IPX which we had in Q3 of 1.1%. So due to the fact that we have been, in this year, showing that we're always outperforming IPX, I'm also confident on that part. So in that context, nothing to be added. We are very confident in terms of reaching what we said during the whole year, resilient pricing, strong volumes, uptick in volumes during second half of the year. So all good on that.

Volume recovery, HCB. I think you had different questions on that. Starting with your last one. Are we over pricing? No. Clear no. Because for sure, I could explain what I just said when Celine had the question on the situation. But I think here, the point of pricing definitely was a significant part related to the valorization of our portfolio, also related to the examples I have given through the Q3 call, be it on laundry when it is Persil.

Looking at Perwoll, in that context, really significant tech innovations, which help us to drive the pricing situation. So therefore, not an overpricing in that context.

With hair, I clearly pointed out, we have set the right strategy. We are executing that strategy. And I think the proof point is five consecutive quarters in that context. When it comes to competition, North America, yes, condition is high. Has always been high.

And I have to say, will also be high going forward. Yes, we had a more pronounced portfolio impact not only in the quarter, but during the year, in North America, with a mid-single-digit impact when it comes to the discontinuation impact. And I said that will end at the end of this year. And that's, again, also another proof point that we are confident that the situation in 2025 will change.

I mentioned before in one of the questions, I think it was related to the promotional activity, that we have seen an increased promotional activity during the course of 2025. And yes, but that's not something special. But I would say that overall -- and I mentioned the last part, as a last part, private label. I have mentioned it. I think private label is in transition, stabilizing in most of the markets, what we are seeing.

And also here, I would say, confirming what I have mentioned a couple of quarters ago, if we are in a very difficult environment, especially inflationary environment, there is a tendency, especially in the laundry category, that consumers tend to private labels. And I think that's getting more in balance back. And therefore, hopefully that helps.

Operator

David Hayes, Jefferies.

David Hayes

Jefferies - Analyst

One clarification and one volume consumer question, one of the easiest question, if I can. So just on clarification, just in terms of this positive volume in consumer. Am I right to, just to relate it back to you and say, you don't think it will be positive in the fourth quarter but will turn positive next year? And then just on the discontinuations, still slowing down sequentially. So rather than a 1.7, something like a 1 percentage point headwind is kind of what you're anticipating in this quarter?

I just want to just check if we're kind of broadly understanding it correctly.

And then just in terms of the laundry in Europe pricing dynamics. If you look at the scanner data, one of the competitors at Unilever to be specific, seems to be very aggressive on pricing doing quite well in terms of volume and share. Is that something that you are seeing and having to react to? Or are you looking to react as you're negotiating now with retailers? Is it something that you're seeing in specific markets that is being addressed?

And then on the -- sorry, on the adhesive side, I just want to check that Boeing as a client with this disruption we've seen in the last few weeks isn't a negative effect that may be returns and improves set next quarter, or whether that's just too small to worry about? And then just to again clarify maybe on the sequential volume dynamic, back to Marco's point in the prepared remarks, was the point that it would just be still good volume or actually sequentially better volume in the fourth quarter when you made reference to the trend into the fourth quarter?

Carsten Knobel

Henkel AG & Co KGaA - Chairman of the Management Board

So David, I've counted six questions, not two. You need to -- next time you need to explain your mathematics. But the last question I even don't get, you were referring to what, Adhesives or HCB?

David Hayes
Jefferies - Analyst

Yes. Marco, I think, said in the prepared remarks, the Adhesive, it would be -- talk about the fourth quarter would be -- I was just trying to -- sequentially better in the fourth quarter? Or are you saying equally sort of strong volume-wise versus pricing in the fourth quarter? Just the specifics on that comment.

Carsten Knobel
Henkel AG & Co KGaA - Chairman of the Management Board

So David, part of your question, we're very specific on Q4, and I hope you understand that I'm not giving any specific trading details. But one thing is clear. We set clearly and we're confirming that the volumes will sequentially better in Q4 versus Q3, and that valid in -- specifically in HCB, but also valid for HAT. My comment on positive volumes was related to 2025 for HCB, because the point is that the portfolio measures, discontinuation measures, will have an end at the end of 2024. When you're referring to the laundry part and Scanner data and things of one of our competitors, I have to say, I cannot comment so much on that.

What I can comment on is that we have a clear strategy. I know we are in a transition. You know have only started -- and I say only the go-live of our HCB business, 1.5 -- well, 18 months, 19, 20 months ago, and we are in the middle of this transition or transformation.

And again, what we have shown in hair is really paying off in terms of concentrating on the brands, taking portfolio parts out which we are not strong enough, and that is reflected in great growth, in great balance between volume and price. So here is a great blueprint. And we are extending, enlarging, transforming that to our laundry & home care business.

And I have to say, at that point, I'm not looking left to right, what a single competitor is doing in the quarter or in a couple of things, they have their strategies I think when we're executing what we have done now also partly very painful because taking significant parts of our portfolio out is not an easy job. But it comes to an end. So therefore, I'm positive and confident for 2025 on that. Yes, I hope that gives you a good answer on your question. Did I forget anything?

Maybe, Marco, you want to say -- Marco wants at least maybe to the last?

Marco Swoboda
Henkel AG & Co KGaA - Executive Vice President - Finance, Purchasing, Global Business Solutions and Member of the Management Board

Maybe just comment, because you said you referred to my presentation on adhesives and the volume development. I think when it comes to adhesives, we said we do expect the volume expansion to continue in Q4. So that's actually what I said. I didn't say sequentially, I said the volume expansion is going to continue. I think we said earlier in the call, yes, from a pure IP standpoint, even seems to be a bit better off than Q3.

But on the concrete quote, I said volume expansion will continue. What we said on the slide is actually what we saw, in Q3, a continued sequential improvement in adhesives. So you see that also in the numbers depicted on the slide. Just to clarify maybe what I said in the presentation.

David Hayes
Jefferies - Analyst

And the Boeing element, that's too small to really be impactful? Or is it a little bit of an effect in mobility on the offset to electronics?

Marco Swoboda

Henkel AG & Co KGaA - Executive Vice President - Finance, Purchasing, Global Business Solutions and Member of the Management Board

At the end, boycotts, in the overall numbers of adhesives, that will not play the major role. So that is no material impact that will hit us in Q4 in any way.

Carsten Knobel

Henkel AG & Co KGaA - Chairman of the Management Board

We see a strong development in aerospace. I think we were pointing that out during the presentation today, that this is for us long term very strong growth part, especially also related to the market expectations that the airplanes will double over the next decade in that context. So I see that from a long-term perspective. And therefore, significantly more opportunities than risk in that context.

Operator

Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Mr. Knobel for any closing remarks.

Carsten Knobel

Henkel AG & Co KGaA - Chairman of the Management Board

Yes. Thank you. Thank you all for your questions. It was a good call in that context. Thank you for your questions.

With that, let me also close today's call with reminding you of the upcoming financial reporting dates. We're looking forward to connecting with you again in March when we will publish our full year financial report. And with this, I would like to thank you for joining the call today. Have a good day. Take care.

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Q3 2024 Henkel AG & Co KGaA Earnings Call

Nov 06, 2024 / 08:00AM GMT